General Ledger/Chart of Accounts/ Financial Reporting
Process Scope Objectives and Challenges
Working Document
6/8/06

General Ledger/Chart of Accounts/Financial Reporting Bold Ideas

(Pending reconfirmation at the June 28 follow-up focus group session)

1. Redesign the chart of accounts based on a strategic evaluation of the state's financial information objectives to accommodate both agency and statewide business needs??
2. Adopt a single, consolidated robust state general ledger that allows cost effective and flexible collection of agency detailed transactions and links revenues to expenditures??
3. Allow the recording of transactions not defined by transaction codes??
4. Integrate cash and general ledger transactions through single points of entry??
5. Provide robust financial reporting tools that link budgeted and actual financial data with projected amounts, performance measures and narrative??
6. Integrate appropriation and allotment processes with financial reporting processes for agencies, accommodating biennial, continuous, and capital appropriations and budgeted and non-budgeted funds??

General Ledger / Chart of Accounts Process Scope

General ledger accounting is the process of preparing, reviewing and recording accounting transactions to the appropriate fiscal period and accounts, reconciling subsidiaries with the general ledger, and managing the chart of accounts.

Financial Reporting Process Scope

Financial Reporting is the process of collecting, analyzing, and presenting formal and informal financial information to support managerial, compliance and performance reporting for agency and statewide purposes on a periodic and ad-hoc basis for internal and external use.

Business Objectives

<u>Capture financial events</u>

1. Record financial events consistently, accurately and timely to ensure accountability and that the results of operations and financial position are fairly stated in compliance with professional and other regulatory standards.
2. Provide flexibility to support current and evolving agency and statewide business needs and industry standards.
3. Provide chart of accounts definitions and standards to enable agency and statewide data collection and financial analysis.
4. Support reporting of financial data across a multi-year time period for long-term analyses, as changes are made to the chart of accounts.
5. Ensure subsidiary accounts and agency line of business systems are in balance with the general ledger.
6. Support financial data interchange with private and public business partners.

<u>Align financial results with strategic and operational goals</u>

7. Provide a variety of fiscal reporting views to enable agency autonomy and statewide consolidation to meet management and reporting objectives. Views may include timeframes, fund type, agency line of business, level of detail, general ledger account classifications, accounting basis, and so forth.

8. Support governmental, proprietary and fiduciary operations.
9. Facilitate planning, resource allocation, budget analysis, statistical evaluation, cash control, management control, and operating and strategic decision-making at the agency and statewide levels.

<u>Present financial results</u>

10. Provide visibility and accountability in the use of public resources.
11. Demonstrate the effectiveness of functions and activities within government to support performance results.
12. Present financial results for operational, managerial, compliance and performance measurement purposes.
13. Monitor and assess financial condition and activity at various agency and statewide levels.
14. Inspire investor and stakeholder confidence by demonstrating compliance with the highest professional standards.

Current Business Challenges

Current system –

1. It is difficult to track costs by and manage grant, project, contract, asset and location information
2. Transaction codes limit agency ability to record events. These events must sometimes be recorded as a series of transactions and reversals that tend to obfuscate the intent and distort activity reporting
3. Level of detail needed for reporting is prohibitively expensive in AFRS (charge model should not penalize small agencies to support complex agencies)
4. Robust sales model (Lottery, LCB and other proprietary funds) is not in AFRS
5. DSHS case management / financial recovery process would benefit from more robust two way AFRS data feedback
6. Flexibility to record and analyze additional data elements to get more detailed numbers
7. Some chart of account fields are used by various agencies for different purposes, making consolidation and statewide reporting difficult.
8. Some agencies elect to send summarized data to AFRS rather than detailed operational data to avoid AFRS transaction fees; this contributes to the development and use of internal systems and hinders the ability to compile cross agency data.

Billings and Due To's and Due From's –

1. DSHS providers have 120 days to bill, which is after phase 3 ends
2. Reconciling interagency due-to and due-from accounts requires a lot of effort during financial close (agencies billing late, agencies trying to close early, accruals from year to year)

Coordination between systems –

1. It is challenging for agencies to reconcile cash transactions with financial transactions
2. Reconciliation of capital asset subsidiary records with the general ledger and other subsidiary records is difficult.

Closing Fiscal Year or Biennium –

1. Financial close process is labor intensive, making it difficult to keep up with current fiscal period work
2. Historical totals for detailed account code fields such as org index and sub program are lost at biennium roll
3. The biennium closing process causes the beginning balances of real accounts to change in the new year until the system is closed.

4. Nominal and treasury cash activity accounts do not exist in the new year due to the biennial closing process not rolling those amounts forward as if closed in a beginning cash or equity balance.
5. Agencies needing to close early must track and reconcile post-closing adjustments
6. Some agencies post accruals late
7. Late adjustment errors are difficult to correct
8. Annual and terminal leave accruals are reported annually instead of routinely, even though they have a significant impact on financial reporting.

Fund Type Recording and Reporting –

1. Proprietary fund agencies need more robust functionality to calculate cost of goods sold, track resources available for operations, generate detailed profit and loss statements and manage day to day business operations
2. In non-appropriated funds, it is difficult to earmark revenues or fund balance for special purposes
3. Legislated budgets for internal service funds are not always consistent with GAAP

General Reporting (Interim, Formal and Informal)

1. Reporting expenditures by budget activity is a labor intensive process based on assumptions and estimates; it is especially difficult to allocate indirect and overhead administrative costs between activities and compile budget activity data across agencies
2. Some agencies need to prepare “on-demand” formal financial statements at a lower level of detail and on a more frequent or timely basis than AFRS closes (e.g. for agency lines of business, on a federal fiscal year, calendar year, quarter or four weeks basis)
3. Even with improved enterprise reporting tools, it still takes significant effort for some agencies to re-sort and compile data to meet agency internal management needs
4. Agencies need to be able to link performance measures with budget status reports and interim financial statements
5. The state biennial budget crosses fiscal years making certain reporting challenging (e.g. quarterly reporting in 2nd year of biennium)
6. Agencies have limited ability to switch revenue and expenditure views between modified accrual, full accrual and cash bases
7. It is challenging to communicate “where the money goes” to citizens (e.g. what public services are provided by which revenue sources)
8. Agencies need better support for specialized reporting requirements such as infrastructure condition reporting, mark to market, and contingencies

Definition of:

Mark to Market
An accounting process by which the price of securities held in an account are valued each day to reflect the closing price, or market quote if the last sale is outside of the market quote. The result of this process is that the equity in an account is updated daily to properly reflect current security prices.

Mark to market
In economics, **mark to market** is the act of assigning a value to a position held in a financial instrument based on the current market price for that instrument, or on a fair valuation based on the current market prices of similar instruments.